

**Statement of the  
NATIONAL ASSOCIATION OF REALTORS<sup>0</sup>  
on Housing Affordability  
May 3, 2001**

On behalf of the nearly 740,000 members of the NATIONAL ASSOCIATION OF REALTORS®, we are pleased to submit this written statement on housing affordability. The NATIONAL ASSOCIATION OF REALTORS® represents a wide variety of real estate industry professionals including residential and commercial real estate development, mortgage banking, home building, property management, appraisals and syndication. The Association has a long tradition of support for innovative and effective affordable housing programs and we work diligently with the Subcommittee and Congress to fashion housing policies that ensure Federal housing programs meet their mission and objectives responsibly and efficiently.

We commend the Subcommittee for their continuing efforts on behalf of American families who need and desire affordable housing opportunities. Even in these strong economic times where we have seen the greatest boom in homeownership rates, many working families are not able to find decent affordable housing.

NAR has consistently maintained that homeownership serves as a cornerstone of our democratic system of government and that homeownership continues to be a strong personal and social priority in the United States. Living in one's own home is central to the concept that a person has achieved a measure of security and success in life.

NAR has equally and forcefully maintained that rental housing has an immediate and beneficial effect on the prosperity of a community, providing a range of housing options that not only attract top employers but also generate local taxes, fees and income to benefit a local economy.

Yet, despite our nation's unprecedented economic prosperity, there is a continuing, growing crisis in housing affordability and ownership that is gripping our nation. Specifically, while our nation enjoys a record homeownership rate, the homeownership rate for ethnic Americans continues to lag below 50 percent. The number of working families with worst case housing needs has increased sharply. The stock of rental units that are affordable and available is rapidly declining. And, home sales prices in certain market areas are rising far faster than the US average, resulting in an exacerbated affordability crisis.

The need for affordable housing is well documented in various research reports from a variety of institutions and interest groups, with one out of every seven American families having a critical housing need, including millions of working families. More than a quarter of low-income households must now spend over half their income on rent. Those families can't accumulate enough savings to buy a home of their own. Recent studies have determined that 13.7 million households, including 7.5 million renters, faced critical housing needs. Further, recent Census Bureau figures revealed that the number of moderate-income families facing a critical need for rental housing increased by 64 percent between 1997 and 1999, from 433,000 to 711,000 families. The problem is not only one of affordability but also one comprising inventory shortages in many areas of the country.

Very simply, families should not have to pay more than half their income for housing nor live in severely dilapidated homes. Our country is built on the foundation that a decent home in a suitable living environment is a basic tenet of American life. In light of the fundamental role that housing plays in the daily lives of Americans, the lack of affordable housing for working families -- and constructive solutions to address it -- justifies prominence on the national policy agenda.

NAR believes that federal mortgage finance and assisted-housing programs that have proven records for producing and preserving affordable housing must not only be preserved but also strengthened and provided with significant additional resources. Moreover, to encourage homeownership opportunities for all Americans and increase the supply of affordable housing nationwide, necessary initiatives, programs and policies must be developed and supported by key policymakers.

Accordingly, NAR promotes the following:

- Creation of an affordable housing production program to provide housing opportunities for working families, especially those who are unable to find decent, affordable housing near their places of employment;

- Modifications to federal single-family mortgage programs to remove barriers that inhibit homeownership opportunities, particularly among African-American, Asian and Hispanic households, first-time homebuyers, and rural residents;

- Enhancements to the veterans housing program to improve its marketability among military personnel and veterans and position it as a viable homeownership vehicle for the 21st century and beyond;

- Promotion of programs that encourage the removal of regulatory barriers to housing rehabilitation such as excessively long development review processes and requirements for unreasonable and expensive improvements to ensure preservation and modernization of older structures and to keep housing costs down;

- Strengthening and promoting the Section 8 homeownership program to ensure elderly, disabled and low-income families are afforded the opportunity to share in the benefits of the American dream of owning a home;

- Establishment of a national standard for homeownership counseling to increase consumers knowledge and understanding about the home purchase process; and,

- Promotion of free, open and accessible housing through renewal of our Fair Housing Partnership Agreement linked with our One America diversity certification agreement with the Department of Housing and Urban Development.

We believe that it is important to note that FHA's existing multifamily programs provide insurance that assists both the private and public sectors to finance the construction, purchase and rehabilitation, or the refinancing of rental housing projects, condominiums, and cooperatives. Generally, a project is eligible for multifamily mortgage insurance if the sponsors can demonstrate that there is a definite

demand for the proposed housing in the market area, that the project will be economically self-sufficient, and that mortgage commitments from construction and permanent lenders have been received. Yet, the viability and usage of these programs has declined precipitously over the years.

The convergence of several factors altered the landscape of multifamily housing causing a scarcity of finance options and discouraging the participation of lenders in the multifamily market. These factors included the Tax Reform Act of 1986, changes in institutional lending mandated by FIRREA, and regulatory barriers limiting the program's effectiveness.

In the 1980's, thrifts were the primary source of financing to multifamily projects dominating other sources. However, by the early 1990's, the thrift industry began a rapid downsizing for economic and regulatory reasons. The Tax Reform Act of 1986 (TRA) particularly undermined the value of real estate, especially multifamily housing. TRA eliminated much of the tax-favored status of rental housing and consequently the development and ownership of multifamily projects. TRA policy changes caused the supply of new multifamily housing to plummet and contributed to depressed values in properties held by banks, thus decreasing the ability of banks to continue making appropriate real estate and business loans.

Just as thrifts were directing their activities away from multifamily loans because of tighter risk-based capital rules, banks were also constrained in their ability to fund commercial real estate due to the same regulatory pressures. Because multifamily loans were in the highest risk category for capital purposes, banks avoided investing in multifamily properties. The increased regulatory pressure coupled with the difficulties in traditional lending markets affected not only acquisition and development financing but also permanent financing of income-producing properties.

The NATIONAL ASSOCIATION OF REALTORS® supports governmental solutions to stimulate the availability of private financing to spur new production and substantial rehabilitation of affordable rental housing, particularly in high cost areas of the country. We support the recently introduced H.R. 1629, the "FHA Multifamily Housing Mortgage Loan Limit Adjustment Act of 2001". By increasing the multifamily loan limits, FHA will stimulate not only new construction, but rehabilitation of existing infrastructure in many cities across the country, that have previously been out of reach of the FHA program. Only 748 FHA-insured multifamily new-construction or substantial-rehabilitation loans, producing just 127,409 units, were made nationally over the past four years. The result has been a significant and growing gap between the demand for and the supply of affordable rental housing. Increasing the FHA loan limits is a first step towards increasing production in many of our nation's cities.

However, the FHA multifamily programs face another, perhaps even more immediate, problem. The credit subsidy that allows these programs to operate is quickly being depleted. The appropriation needed to operate these programs is for a loan loss reserve required by the Credit Reform Act. The funds available for the loan loss reserve will soon be committed which will mean that FHA can no longer insure mortgages under these programs. Those apartment projects currently in processing for insurance will thus not be built or their construction will be delayed until FY 2002 – assuming new funds are made available even then.

It is important to note that last year FHA multifamily programs ceased operations in July, causing a backlog of projects. On October 1st, properties pending FHA insurance from FY 01 used up much of the funding for FY 02. Congress appropriated an additional \$40 million as an emergency supplemental, however the Bush Administration is unwilling to accept these funds. This \$40 million will provide for the new construction or substantial rehabilitation of over 17,000 units of rental housing with a mortgage amount of over \$1.3 billion. Without these funds, these projects will not be built and developers who have invested hundreds of thousands of dollars in up-front costs for land options, plans and specifications and other pre-development costs will lose those investments. In addition, this opportunity to provide an immediate economic stimulus and produce thousands of construction jobs will be lost. We urge Congress to work with the Department of Housing and Urban Development, to release this money to be used for its appropriated purpose, and help to meet the critical demands for rental housing.

Furthermore, the current crisis in affordable housing demands the use of FHA programs to stimulate affordable housing production. In recent years, funding for the credit subsidy has been underestimated, while the nation's affordable housing needs have grown. We urge Congress and HUD to increase the FY 2002 credit subsidy request above the Administration's proposal of \$15 million to ensure that FHA multifamily programs remain operational and functional. The marketplace has been unable to respond to the housing needs of many of our nation's families because of imbalances in funding and program interruptions stemming from lax budgetary decisions. Congressional action is needed to increase production and rehabilitation and meet demand. Many developers and housing advocates are ready to respond to the housing needs in their area. But each year, as the credit subsidy expires, these projects remain unfunded. We cannot afford to lose any opportunity for affordable housing production.

Despite our growing economy, finding affordable housing is a burden for many working families. We urge Congress to work with HUD to create affordable housing opportunities for all our nation's families. Thank you for providing us the opportunity to provide this statement on behalf of the NATIONAL ASSOCIATION OF REALTORS®